

Snapshot – IFRS 11 – Joint Arrangements



OBJECTIVE

To establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements)

SCOPE

IFRS 11 applies to all entities that are a party to a joint arrangement

EFFECTIVE DATE

- Effective for annual periods beginning on or after 1 January 2013
- Early application is permitted

JOINT ARRANGEMENT

A joint arrangement is an arrangement of which two or more parties have joint control and the following characteristics are present

- The parties are bound by a contractual arrangement, and
- The contractual arrangement gives two or more of the parties joint control of the arrangement

No single party controls the arrangement

JOINT CONTROL

Joint control is defined as 'the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control'

All the parties or a group of parties control the arrangement collectively when they act together to direct the relevant activities that significantly affect the returns of the arrangement

Judgement will need to be applied when assessing whether all the parties or a group of parties have joint control over a joint arrangement. This assessment shall be made by considering all facts and circumstances. If these facts and circumstances change, an entity shall reassess whether joint control of the arrangement still exists

JOINT ARRANGEMENT TYPES

A joint arrangement can be classified as a

- **Joint operation** (A joint arrangement whereby the parties that have **joint control** of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement) **or**
- **Joint venture** (A joint arrangement whereby the parties that have **joint control** of the arrangement have rights to the net assets of the arrangement)

FINNACIAL STATEMENTS OF PARTIES TO A JOINT ARRANGEMENT

JOINT OPERATIONS

- A joint operator is required to recognize in relation to its interest in a joint operation
- Its assets, including its share of any assets held jointly
 - Its liabilities, including its share of any liabilities incurred jointly
 - Its revenue from the sale of its share of the output arising from the joint operation
 - Its share of the revenue from the sale of the output by the joint operation, and
 - Its expenses, including its share of any expenses incurred jointly

These shall be accounted for in accordance with the applicable IFRSs

If a party that participates in, but does not have joint control of a joint operation, and rights to the assets and obligations relating to that joint operation

- Are present, it is required to account for these as above
- Are not present, it is required to account for its interest in the joint operation in accordance with the applicable IFRSs to that interest

SEPARATE FINANCIAL STATEMENTS

JOINT OPERATIONS

The same accounting treatment is required as per the financial statements of parties to a joint operation

CLASSIFICATION OF JOINT ARRANGEMENTS AS A JOINT OPERATION OR JOINT VENTURE

Judgement will need to be exercised when making this classification. In arriving at the classification, the rights and obligations of the parties to the arrangement must be assessed. In making this assessment, the following shall be considered

- Structure of the joint arrangement
- When structured through a separate vehicle
 - Legal form of the separate vehicle
 - Terms agreed by the parties in the contractual arrangement, and
 - When relevant, other facts and circumstances

JOINT VENTURES

A joint venturer is required to recognize its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures* **unless** the entity is exempted from applying the equity method

A party that participates in, but does not have joint control of a joint venture is required to account for its interest in the arrangement in accordance with IFRS 9 *Financial Instruments*, **unless** it has significant influence over the joint venture, then it shall account for it in accordance with IAS 28

JOINT VENTURES

A joint venture shall account for its interest in accordance with IAS 27 *Separate financial statements*

A party that participates in, but does not have joint control of a joint arrangement shall account for its interest in a joint venture in accordance with IFRS 9, however, if the party has significant influence over the joint venture it shall apply IAS 27